

Federal Reserve System Declassification/Release Instructions on File

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FEDERAL RESERVE BANK  
OF NEW YORK

RESEARCH MEMORANDUM

No 03529 65

To Mr. Coombs

Date September 8, 1965

From J. Karlik and K. Merlo  
Balance of Payments Division

Subject Settlement of the U.S.  
Balance of Payments in June 1965

Copies To Messrs: Hayes, Treiber, Bilby, Garvy, Holmes, Link, Sanford, Waage, Fousek, Lang, Marsh, Sternlight, Bodner, R.G. Davis, Geng, Klopstock, MacLaury, Miss McWhinney, Messrs. Meek, Schott, Auerbach, S.V.O. Clarke, Deming, Hein, Reed, Schadrack, and Serex.

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The United States realized a \$16 million balance-of-payments surplus <sup>1/</sup>during June (see Table I), only \$26 million less than that recorded for May. This performance must be regarded as exceptional, because our balance normally deteriorates markedly in June, owing to increased tourist payments and other adverse seasonal factors. In fact, the month's surplus was the first for a June since 1954. It helped produce a surplus for the second quarter of \$203 million, and caused our international payments for the first six months also to register a modest surplus (unadjusted).

U.S. monetary reserves rose by \$342 million during June (Table I). This gain stemmed from an increase in our holdings of foreign currencies. There was a large gold outflow during the month, but most of this resulted from the \$259 million gold subscription paid to the IMF; the payment established an equivalent claim on the Fund and thus had no net impact on our reserve position. Our reserve gain was partially counteracted by a \$326 million increase in foreigners' liquid claims. Private foreigners' claims increased by \$ 80

<sup>1/</sup> Calculated as the increase in U.S. monetary reserves less the increase in liquid liabilities to all foreigners. These liabilities are defined to include foreign official holdings of special U.S. Government convertible nonmarketable bonds.

Table I

Balance of Payments, June 1965  
(In millions of dollars)

Liquid claims of foreigners on U.S.:

Foreign countries:

Short-term claims

Official

+246

Private

+ 83

Total

+329

U.S. Government notes and bonds

Official

--

Private

+ 14

Total

+ 14

Total foreign countries

+343

International and regional institutions (exc. IMF):

Short-term claims

- 17

U.S. Government notes and bonds

--

Total international and regional institutions

- 17

Total liquid claims of foreigners on U.S.:

+326

U.S. monetary reserves (signs reversed):

Gold

+313

Convertible currencies

-397

IMF position

-258

Total

-342

Net gains by foreigners

- 16

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million, while official claims rose by \$246 million. Despite this increase in official claims, the growth in U.S. monetary reserves enabled this country to record a surplus<sup>2/</sup> on official transactions of \$96 million, an improvement of \$231 million over the May figure.

#### U.S. Gold and Foreign Currency Reserves

The \$313 million June outflow of United States gold was almost three times that of May, but was still less than the \$355 million outflow in March. The major portion of the June loss resulted from our \$259 million gold subscription to the IMF. Among foreign countries, France continued to take the largest amount, \$34 million. However, this was the third consecutive monthly decline in the quantity of "excess" dollars France converted into gold. Austria made her regular monthly purchase of \$12 million, and several countries, including Brazil, purchased about \$2 million worth of gold to be used for payments to the IMF. The remaining \$10 million of gold sold during June was apparently to U.S. residents for industrial and artistic purposes. Our gold losses were offset to a marginal degree by a purchase of \$5 million from Colombia, which is continuing to experience payments difficulties.

U.S. holdings of convertible currencies rose by the equivalent of \$397 million during June. Sterling-dollar swaps in response to renewed pressure on the pound accounted for \$380 million of this increase. Purchases of Deutsche marks resulted in an additional gain of \$37 million. The rise in U.S. holdings of foreign currencies was limited slightly by losses of \$3 million in Dutch guilders and

<sup>2/</sup> Calculated as the increase in U.S. monetary reserves less the increase in liquid liabilities to official foreigners.

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\$ 5 million in Canadian dollars. Finally, our holdings with the BIS declined by \$12 million, primarily as the result of the liquidation of dollar-Swiss franc swaps.

The \$258 million improvement in our IMF position represented almost entirely the claim on the Fund arising from our \$259 million gold subscription.

#### Country-by-Country Review

Once again settlements vis-à-vis the United Kingdom dominated gross monthly changes in these items. Our short-term liabilities to British officials expanded \$251 million, largely as the counterpart of the \$380 million sterling-dollar swap mentioned above. Private U.K. short-term claims on this country grew by \$182 million, in addition to private purchases of \$ 9 million worth of long-term U.S. Government securities. This gain in non-official holdings may have resulted partially from the June improvement in Britain's trade balance, as well as from the possible transfer into the U.K. of Canadian chartered bank U.S.-dollar assets.

Within Europe, declines in short-term liabilities to Germany constituted the primary offset to these increases in British holdings. Although sales of marks by German officials to U.S. authorities totaled \$37 million, their short-term claims on this country fell by \$92 million. A \$79 million drop in private German claims reflected, in part, a reduction in Bundesbank dollar swaps with commercial banks; this decrease in outstanding swaps also tended to expand official dollar assets. German official losses, which occurred in spite of these opposing factors, apparently resulted from the need to finance additional German payments deficits.

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Most other Continental nations acquired short-term claims on the United States during June. Despite gold purchases totaling \$ 34 million, French official claims increased marginally (by \$4 million). French private short-term claims also rose, by \$35 million. Continued strength in Italy's payments was manifested by an \$87 million expansion of its official short-term claims on the United States. Italian private claims on this country, however, declined slightly (by \$3 million). Swiss official short-term claims grew only \$4 million, but similar private holdings expanded by \$97 million. The only substantial decline was a \$51 million fall in Belgian private short-term claims, partially offset by an \$9 million rise in similar official assets. Some of these gains by Continental nations might have been the counterpart of German losses and of expenditures by the United Kingdom from its dollar reserves.

After a small decline in dollar holdings during the previous month, Canadian authorities relinquished \$30 million of dollar reserves in June, and private residents lost \$76 million. A portion of these declines resulted from the seasonal repatriation of U.S. corporate funds deposited in Canada, but the financing of recent Canadian trade deficits most likely also contributed to them.

Latin American countries accounted for an unusually large number of substantial changes in settlement accounts. Argentina and Brazil each lost about \$30 million of official dollar reserves. These two nations have recently had to contend with heavy debt-financing burdens, in addition to other payments difficulties. Chilean officials gained \$33 million of short-term dollar assets; this increase

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might have resulted partially from the May rise in copper prices, but most of it probably reflected the effects of import controls that were instituted some time ago. Mexico, on the other hand, lost \$33 million of dollar reserves, and private Mexican short-term claims on the U.S. fell by \$8 million. An economic boom accompanied by some inflation has lately been inducing an unusually high level of imports into Mexico. Venezuelan official dollar holdings declined by \$35 million, and similar private assets dropped \$29 million; these decreases reflected not only seasonal factors but also repayment by the Venezuelan authorities of a \$10 million long-term loan.

After a \$6 million deterioration in May, short-term liabilities to Japanese authorities rose \$29 million in June. Private Japanese short-term claims, however, grew by merely \$4 million, after a \$56 million expansion the previous month.

#### Alternative Balances

Since there were no special U.S. Government nonliquid transactions in June, <sup>1/</sup> the balance on regular transactions (Balance 1 in Table III) was the same as the \$16 million surplus on regular and special nonliquid transactions (Balance 2). Similarly, since no sales of nonmarketable convertible U.S. Treasury bonds occurred, the surplus on regular and all special Government transactions (Balance 3) also totaled \$16 million.

<sup>1/</sup> With the possible exception of military prepayments, which are calculated on a quarterly basis only.

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The balance on official settlements as calculated by this Bank (Balance 4) is given by the increase in U.S. monetary reserves less the increase in liquid liabilities to official foreigners. The official settlements balance proposed by the Bernstein Committee (Balance 5) is computed in the same way, with the exception that foreign official holdings of special U.S. Government nonmarketable nonconvertible bonds and participations in Export-Import Bank loans are treated in the same manner as liquid liabilities. Also, according to the Committee, loan prepayments by official foreigners must be included in the total as a factor enlarging deficits or reducing surpluses. Since no loan prepayment, Ex-Im sell-off, or sale of a special nonmarketable nonconvertible bond occurred during June, both of the official settlement balances recorded the same \$96 million surplus.

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Changes in Foreigners' Liquid Assets in the U.S.  
and U.S. Monetary Reserves, June 1965  
(In millions of dollars)

Area	Changes in short-term claims on the U.S.		Net foreign purchases (+) of U.S. Government bonds and notes	Changes in U.S. monetary reserves (signs reversed)		U.S. gains (-) or losses (+) vis-a-vis	
	Official	Private		Gold	Convertible currencies and IMF position	All Foreigners	Official Foreigners
Austria	+ 15	+ 1	--	+ 12	--	+ 28	+ 27
Belgium	+ 19	- 51	--	--	--	- 42	+ 9
France	+ 4	+ 35	--	+ 34	--	+ 73	+ 38
Germany	- 92	- 79	--	--	- 37	-208	-129
Italy	+ 87	- 3	--	--	+ 3	+ 87	+ 90
Netherlands	- 2	- 4	--	--	--	- 6	- 2
Norway	+ 23	+ 4	--	--	--	+ 27	+ 23
Spain	+ 32	+ 2	--	--	--	+ 34	+ 32
Sweden	- 20	- 10	--	--	--	- 30	- 20
Switzerland	+ 4	+ 97	+ 8	--	--	+109	+ 4
United Kingdom	+251	+182	+ 9	--	-380	+ 62	-129
Other Europe	+ 67	+ 10	--	--	+ 12	+ 89	+ 79
Total Europe	+378	+184	+ 17	+ 46	-402	+223	+ 22
Canada	- 30	- 76	- 3	--	+ 5	-104	- 25
Argentina	- 29	+ 2	--	--	--	- 27	- 29
Brazil	- 28	- 2	--	+ 1	--	- 29	- 27
Chile	+ 33	+ 3	--	--	--	+ 36	+ 33
Colombia	- 7	- 14	--	- 5	--	- 26	- 12
Mexico	- 33	- 8	--	--	--	- 41	- 33
Venezuela	- 35	- 29	--	--	--	- 64	- 35
Japan	+ 29	+ 4	--	--	--	+ 33	+ 29
All other foreign	- 32	+ 19	--	+ 12	--	- 1	- 20
Total foreign	+246	+ 83	+ 14	+ 54	-397	--	- 97
International and regional institutions	--	- 17	--	--	--	- 17	--
IMF position	--	--	--	+259*	-258	+ 1	+ 1
Grand total	+246	+ 66	+ 14	+ 313	-655	- 16	- 96
*U.S. gold subscription to IMF							

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Table III  
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U.S. Balance of Payments  
(In millions of dollars; (+) = deficit)

	1963 Year	1964 Year	Commerce Department Data						FRBNY data <sup>1/</sup>	
			1964				1965		1965	
			I	II	III	IV	I <sup>2/</sup>	II <sup>2/</sup>	June	
(1) Balance on regular transactions (seasonally adjusted)	+3,287	+3,106	- 64 (+417)	+595 (+545)	+1,021 (+ 593)	+1,554 (+1,551)	+239 (+756)	- 37 (- 87)	- 16	
(2) Balance on regular and special Government nonliquid transactions (seasonally adjusted)	+2,670	+2,798	-224 (+257)	+632 (+582)	+1,021 (+ 593)	+1,369 (+1,366)	+174 (+691)	-203 (-253)	- 16	
(3) Balance on regular and all special Government transactions (seasonally adjusted)	+1,967	+2,423	-224 (+257)	+510 (+460)	+ 818 (+ 390)	+1,319 (+1,316)	+123 (+640)	-203 (-253)	- 16	
(4) Official settlements balance	+2,051	+1,244	-451	+518	+ 459	+ 718	- 18	- 39	- 96	
(5) Official settlements balance: Bernstein basis	+2,258	+1,504	-454	+543	+ 691	+ 724	- 8	- 38	- 96	

<sup>1/</sup> FRBNY data for the balance on regular transactions are incomplete since monthly figures are not available for advance payments for military goods, some debt prepayments, and some Export-Import Bank sell-offs.

<sup>2/</sup> Includes latest revisions available at this Bank.

p--Preliminary

r--Revised

September 7, 1965